

## Message Text

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ACTION ARA-10

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FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 3504

C O N F I D E N T I A L GUATEMALA 7150

E.O. 11652: GDS

TAGS: ENRG, GT

SUBJECT: PETROLEUM - SHENANDOAH EXPLORATION

SUMMARY: THE STATE OF SHENANDOAH'S PLAY EXPLORING FOR OIL IN RUBEL SANTO IS POSTIVE FOR PRODUCTION EXPECTATIONS. THERE ARE FOUR PRODUCING WELLS ON ONE STRUCTURE AND GOOD SEISMIC INDICATIONS FOR OTHER STRUCTURES IN THE PERMIT AREA, TWO OF WHICH ARE SCHEDULED FOR DRILLING. SHENANDOAH HAS NOTIFIED THE GOVERNMENT OF GUATEMALA THAT OIL IN COMMERCIALY PRODUCIBLE QUANTITIES MAY EXIST. THE CHARACTER OF OPERATIONS IS STRONGLY INFLUENCED BY THE PARTICIPATION OF BASIC RESOURCES AND SAGA PETROLEUM AS PARTNERS. END SUMMARY

1. SHENANDOAH PETROLEUM ADVISED THAT GOG ON SEPTEMBER 22 THAT COMMERCIALY PRODUCIBLE OIL HAS BEEN DISCOVERED ON THE COMPANY'S PERMIT AREA. ON THE BASIS OF THIS NOTIFICATION, THE GUATEMALAN GOVERNMENT, UNDER THE PETROLEUM LAW, WILL EXAMINE THE AVAILABLE INFORMATION AND ANNOUNCE ITS DETERMINATION. DIRECTOR OF HYDROCARBONS LUIS MONZON BELIEVES THE FINDING WILL BE POSITIVE AND ANNOUNCEMENT WILL BE MADE IN SEVERAL WEEKS.

2. THE OIL SO FAR DISCOVERED IS IN THE 23 TO 27 DEGREE

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GRAVITY RANGE. IT HAS A HIGH SULFUR CONTENT, ABOUT

FOUR PERCENT; HAS A SURPRISINGLY LOW TOP-ENDS CONTENT; AND LARGE QUANTITIES OF HYDROGEN SULFIDE AND SULFUR DIOXIDE IN FLOW TESTS. LIMITED DATA INDICATES A PRODUCIBLE RESERVE OF PERHAPS 16 MILLION BARRELS IN A DOLOMITIC STRUCTURE, WITH A POTENTIAL OF 6-8 MILLION BARRELS MORE.

3. DRILLING HAS BEEN EXCEPTIONALLY EXPENSIVE AND DIFFICULT DESPITE THE MODERATE DEPTH (7,500 FEET) AND THE OPEN STRUCTURE OF THE PRODUCING FORMATION. IN PART, COSTS HAVE INCREASED BECAUSE OF MULTIPLE TESTING OF SHOWS DURING DRILLING, BUT PRIMARILY BECAUSE OF THE COST OF PROCEDURES AND MATERIALS NECESSARY TO DEAL WITH THE POISONOUS HYDROGEN SULFIDE GAS CONTENT. EACH OF THE FOUR WELLS IS A PRODUCER. INITIAL TEST FLOWS RANGE FROM ABOUT 1,000 TO 3,000 BARRELS PER DAY. TESTING OF FLOW RATES CONTINUES. REMOVAL OF HYDROGEN SULFIDE BY LOW TEMPERATURE (150 DEGREES) DISTILLATION AND REINJECTION OF MOST CRUDE IS BEING CONDUCTED TO TEST THE STRUCTURE AND THE CRUDE.

4. MINOR AMOUNTS OF CRUDE (300-400 BARRELS PER DAY) ARE BEING USED TO STABILIZE ACCESS ROADS BUILT BY SHENANDOAH. SOME CRUDE HAS BEEN HAULED BY TRUCK FOR TEST BURNING IN THE CEMENT FACTORY.

5. USE OF THE CRUDE OIL WILL DEPEND UPON PIPELINE CONSTRUCTION, PROBABLY TO THE CARIBBEAN COAST. A GAS SEPARATION PLANT WILL BE NECESSARY AT THE FIELD SINCE HYDROGEN SULFIDE IS DESTRUCTIVE OF STEEL PIPE. A FRENCH PIPELINE COMPANY HAS BEEN CONTACTED BY BASIC RESOURCES TO CONDUCT A SURVEY.

6. THE CRUDE HAS A POTENTIAL USER IN EXMIBAL, THE NEW NICKEL CONCENTRATION PLANT ON LAKE IZABAL.

7. POTENTIALLY, THE CRUDE COULD BE TOPPED AT THE CHEVRON REFINERY AT PUERTO BARRIOS, THE LIGHT ENDS SOLD INTO THE GUATEMALAN MARKET, AND THE FUEL OIL TAKEN BACK TO THE EXMIBAL PLANT. FOR OPENING OPERATIONS IN THE FIRST QUARTER OF 1977, THE PLANT HAS CONTRACTED IMPORTS  
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FROM TEXACO.

8. DAILY PRODUCTION AT THE PRESENT SHENANDOAH FIELD COULD REACH 8-10,000 BARRELS PER DAY, AS AGAINST CURRENT GUATEMALAN CONSUMPTION OF 20,000 BARRELS PER DAY (TO WHICH MUST BE ADDED 4,000 BARRELS PER DAY WHEN EXMIBAL BEGINS OPERATIONS).

9. AN ELEMENT OF IMPORTANCE TO PUBLICITY AND MANAGEMENT OF THE DISCOVERY IS BASIC RESOURCES. THIS EUROPEAN-BASED COMPANY IS POTENTIALLY A FIFTY PERCENT PARTICIPANT WITH THE RIGHT TO PURCHASE 50 PERCENT OF THE OPERATIONS SHOULD OIL BE PRODUCED COMMERCIALY. BASIC IS A PRIMARILY A FINANCIAL PROMOTION COMPANY. IT HAS BEEN ACCUSED LOCALLY OF EXAGGERATION OF ITS REAL WORTH. THERE IS, THEREFORE, AT LEAST A POTENTIAL FOR PROMOTIONAL OVERSTATEMENTS OF THE GUATEMALAN PETROLEUM DEVELOPMENT.

10. SAGA PETROLEUM, FORMERLY A 25 PERCENT PARTNER AND A NORWEGIAN COMPANY, HAS BEEN ASKED BY ITS GOVERNMENT TO KEEP ITS CAPITAL IN THE NORWAY OFFSHORE. THEREFORE, ITS FUTURE PARTICIPATION WILL BE MUCH LESS THAN 25 PERCENT.

11. SHENANDOAH REPORTS THAT OTHER OIL COMPANIES ARE MAKING OVERTURES TO TAKE OVER SOME SAGA PARTICIPATION.  
BOSTER

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